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TAGS: ECON EFIN VE
SUBJECT: VENEZUELANS STAND TO LOSE BILLIONS AT STANFORD
INTERNATIONAL BANK

REF: A. 2008 CARACAS 1525
¶B. 2008 CARACAS 566

Classified By: Economic Counselor Darnall Steuart for reasons 1.4 (b) and (d).

¶1. (SBU) Summary: Venezuelans stand to lose up to several billion dollars if the SEC is correct in its allegations of a Ponzi scheme at Antigua-based Stanford International Bank (SIB). The Stanford Financial Group (SFG), which owns SIB, aggressively pursued offshore deposits by Venezuelans in SIB through an affiliated broker. If these deposits prove impossible to redeem, many affected Venezuelans will lose a significant part of their savings even as domestic economic conditions worsen. SFG also controls a small Venezuelan bank. Although this bank is legally a completely separate entity from SIB, depositors are rapidly withdrawing funds and the government may be forced to intervene. Neither Venezuelans' potential losses at SIB nor the potential failure of the local bank are likely to have a significant impact on Venezuela's financial sector. End summary.

Venezuelan Investment in Stanford International Bank

¶2. (SBU) SIB, the first defendant named in an SEC complaint made public February 17, appears to have received a significant percentage of its deposits from Venezuelan investors. (Note: The SEC complaint accuses the defendants, who include SFG's chairman and owner, of operating a USD 8 billion Madoff-type Ponzi scheme based at SIB. End note.) According to SIB's website, Stanford Group Company (SGC), a broker-dealer and investment advisor controlled by SFG which (according to the SEC complaint) channeled investors to SIB, has offices in four Venezuelan cities, as well as in a number of U.S. locations accessible to Venezuelans. Total investment by Venezuelans in SIB is unknown but apparently significant. A director of the separate local bank controlled by SFG told Econoff in 2008 that Venezuelan investors accounted for 20 percent of SIB's deposits (or USD 1.6 billion, if total deposits were USD 8 billion). Other estimates range from USD 400 million to USD 5 billion.

¶3. (C) The Caracas office of SGC was the subject of a raid by the government's military intelligence arm in October 2008 (ref A). The government claimed the raid concerned an espionage case, with state media alleging the CIA was involved. The raid may have had other purposes, including obtaining information on individuals investing through SGC.

Stanford Bank of Venezuela in Trouble

¶4. (SBU) SFG (the umbrella company) is present in Venezuela's local financial sector through its ownership of Stanford Bank of Venezuela (SBV), an entity that is legally separate from SIB (the Antigua-based bank) and SGC (the broker and advisor). Acquired by SFG in 2005, SBV is a small bank by Venezuelan standards; its assets, valued in December 2008 at USD 287 million at the official exchange rate, comprise only 0.2 percent of total assets in Venezuela's financial sector. It does not have a good reputation. A February 2009 report by respected banking analyst Francisco Faraco rates SBV, along with a handful of other small banks, as having the potential for collapse given poor asset quality and/or other weaknesses. (Note: Venezuela's banking sector is characterized by a small number of large banks that control over 50 percent of market share and a proliferation of smaller banks. While many of the smaller banks have vulnerabilities, they are not considered a systemic risk to the sector - see ref B. End note.) SBV was also the subject of a bitter dispute between its owners (i.e., SFG) and its first president, whom the owners forced out amid a tax fraud case.

¶5. (SBU) Noting that SBV is regulated by Venezuelan law and legally separate from SIB, both SBV and the Superintendency of Banks (Sudeban), Venezuela's primary banking regulator, have appealed to SBV depositors to remain calm and not overreact to the allegations of a Ponzi scheme at SIB. Depositors have not heeded this advice. Sudeban head Edgar

Hernandez said February 18 in a press conference that SBV depositors withdrew Bs 57 million on February 17 (USD 26.5 million at the official exchange rate, or roughly 12 percent of total SBV deposits) and that there were also "extraordinary withdrawals" the morning of February 18. Sudeban and the Central Bank were "evaluating the situation," he concluded. A former head of Venezuela's FDIC equivalent told Econ LES February 17 that authorities were contemplating shutting down SGC offices in Venezuela and taking over SBV.

Comment: Ripples in Venezuela

¶6. (C) Comment: The SEC complaint and the underlying Ponzi scheme, if that is what it turns out to be, may have several ripple effects in Venezuela. Most importantly, Venezuelans depositors in SIB stand to lose a significant amount of money, causing an erosion of savings even as the economy worsens. While such losses would be tragic for individuals (many apparently from the middle class), we do not foresee a significant impact on Venezuela's financial sector given the amount of money at stake and the fact that the larger local banks do not appear to be involved. Given its small size, we also do not foresee any systemic impact on Venezuela's financial sector if SBV fails or is taken over by the government. Finally, it also remains to be seen whether and how President Chavez will react to or comment on the case. While it provides easy fodder for his usual broadsides against the evils of capitalism, it also represents a failure of Venezuela's regulatory system (given SGC's operations in Venezuela), and there are doubtless government officials among the potential losers. End comment.
CAULFIELD